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FISCAL IMPACT STATEMENT

LS 6291 | **NOTE PREPARED:** Dec 6, 2002
BILL NUMBER: HB 1051 | **BILL AMENDED:**

SUBJECT: Residential Improvements Deduction.

FIRST AUTHOR: Rep. Frenz | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill establishes a two-year (four-year for a historic residence) deduction for a principal residence in the amount of an increase in assessed value resulting from rehabilitation.

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $56,000 in FY 2005 and $112,000 in years following.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a taxpayer may receive up to a $9,000 AV property tax deduction against the assessed value that the rehabilitation of residential property has added. The rehabilitation must be significant and must have been made to an existing structure. For single-family dwellings, the assessed value prior to rehabilitation may not exceed $18,000. The deduction runs for five years.

This proposal would provide a deduction for the rehabilitation of an owner-occupied residence in lieu of the existing deduction. Under this proposal, the owner of the residence would be entitled to an AV deduction that is equal to 100% of the AV of the rehabilitation. The deduction would run for two years, or four years in the case of historic property. There would be no prior assessed value limitation. These provisions would increase the level of deductions granted.

This deduction would first take effect with property taxes paid in 2005. According to the Census Bureau, there were $82.4 B invested in home improvements nationally in 2001. Assuming that Indiana represents about 2% of this amount, it is estimated that approximately $1.7 B were invested in 2001 for Indiana home improvements. This is the estimated amount of the deduction under this proposal for taxes paid in 2005. The deduction would double in 2006 because the deduction lasts for at least two years. The deduction would grow slightly bigger in 2007 and 2008 because of the four-year availability for historic properties.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $1.7 B reduction in assessed value would cause an estimated $0.0122 increase in the statewide average net tax rate in CY 2005. This translates into a property tax shift of about $33 M. In 2006, the estimated $3.4 B reduction in assessed value would cause an estimated $0.0243 increase in the statewide average net tax rate with a property tax shift of about $68 M.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors.

Information Sources: U.S. Dept. of Commerce, Bureau of the Census; Local Government Database.

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